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Dear Mr Sausman

Discussion document: enduring transmission charging arrangements for distributed generation

Introduction

energywatch welcomes the opportunity to comment on this discussion document.

energywatch notes the context of the current discussion on potential enduring charging and contractual arrangements for distributed generation. energywatch also recognises that there are a number of issues affecting transmission charging which are being considered in parallel, namely:

- National Grid's further consideration of conditions placed on it by the Authority when approving its 2005-06 transmission use of system charges;
- whether the interim rebate of a proportion of residual transmission charges, provided to small (132kV connected) generators in Scotland to place them on a level playing field with similar distribution connected generation in England and Wales, should continue;
- reviews through the Grid Code and through CUSC amendments seeking to clarify the varying definitions of the same generating plant across locations, as well as the position of energy flows between networks; and
- the review of the structure of distribution use of system charges.

energywatch notes that further consideration of all these issues should allow the development of a holistic solution to ensure consistency of approach. At this early stage of the review, however, our comments are of a general nature.

Costs to the transmission grid imposed by distributed generation

energywatch recognises that, even with robust and active network management by distribution network operators, there is a potential, given the projected increase in distributed generation, for export from Grid Supply Points to the transmission network. Indeed, a recent CUSC amendment, CAP093, seeks to recognise this possibility. These circumstances may well create the effect, which lead to increased costs ultimately passed through to end consumers, of National Grid being unable to meet its licence obligations to operate an efficient and economic transmission network and an adverse impact on overall cost reflectivity of transmission charges.

In these circumstances, energywatch believes that the costs imposed on the transmission grid by export flows, for which there would not necessarily be any access rights, do need to be accounted for in some way. However, any regime for recovery of these costs must be established on the basis that the choice of where to connect, distribution network or transmission network, is an informed one for the distributed generator and minimises costs.

There are clearly a number of other considerations for a distributed generator in making its choice on connection, including both the size and configuration of plant and its location, which are areas still under discussion and review. Generators may also consider that, under current circumstances, connection to distribution networks imposes less onerous contractual arrangements, as there is no need to sign the Balancing and Settlement Code, CUSC and Grid Code. energywatch agrees that the charging and contractual issues highlighted by Ofgem are the main ones to be addressed through a process which optimises the outcome put in place for enduring arrangements.

Key principles of any revised transmission charging regime

energywatch considers that there are a number of key principles which any revised and enduring transmission charging and contractual regime for distributed generation must meet to optimise outcomes, namely:

- cost reflectivity – we alluded to this in the previous section. Any user of the transmission network, indirectly in the case of distribution connected generation, which imposes costs on the system but does not pay for those costs, either because it is not contractually obliged to do so, or because there is no mechanism to recover the costs it imposes, should be subject to some means of recovery. This would ensure, firstly, that it makes an informed choice on whether to connect directly to the transmission system or not, given that there may also be contractual issues to consider, and, secondly, that, by paying an appropriate share, it helps National Grid to efficiently and economically operate the transmission network and minimise overall costs of operation, thereby reducing cost pass through to end consumers and helps distributors to operate their networks efficiently;
- transparency – any regime for cost recovery, along with any attendant contractual framework must be transparent to users, wherever connected. They must be able to understand how, if they are distribution connected but impose

costs on the transmission network, the costs are calculated. This approach may also facilitate competition if users are willing to place a value on access rights to networks, thereby further reducing costs of network operation [is this right?];

- flexibility – responsive and active management within and across networks by both distributors and National Grid must be a feature of charging and contractual arrangements. Users would derive some clarity as to how network operators wish to use their output/demand and respond accordingly. This may also help to reduce overall costs of operation. We are aware, however, that the scale of distributed generation which may connect carries the potential for increased constraints on networks which could impose additional costs. Network operators should seek to respond in a manner which limits the cost impact of constraints;
- proportionality and equity – these principles are already licence obligations imposed on distributors and National Grid in terms of their non-discriminatory treatment of existing and new connectees and any charging and contractual regime affecting distributed generation must reflect these licence conditions; and
- effective and efficient implementation – any charging and contractual regime which is unnecessarily complex or costly should be avoided. There must be an appropriate cost-benefit analysis undertaken of any proposed options to ensure that there is a streamlined approach to implementation which keeps costs low.

Ofgem's options for enduring arrangements

energywatch notes the various options that Ofgem has presented in the discussion document for possible enduring charging and contractual arrangements for distributed generation. Given that the process for determining solutions is at an early stage in terms of development, and that various related issues are still under discussion, we do not wish to make specific comments about the seven options outlined. We would only make the general comment that the principles which we have specified in the previous section should be relevant in developing any enduring solution.

We also reiterate the view that Ofgem is in an optimal position in terms of developing holistic enduring arrangements as it alone is able to take the broad view, given its regulatory remit, which would allow a consistency of approach across legal frameworks, including licences, the CUSC, Grid Code and BSC. Ofgem also has its overriding objective of protecting customers which is a critical reference point in ensuring that an optimal solution is developed. We would encourage Ofgem to develop consistency and a holistic approach during the development of these arrangements.

Conclusion

energywatch generally supports Ofgem's view that there is a need for enduring arrangements regarding transmission charging and contractual issues affecting distributed generation, given the expected increase in network connections in

coming years. We are aware that there may be an impact on the various price control arrangements, however, we await more detail on the proposals given that certain related issues, which may impact on the final solution, still require determination. A cost-benefit analysis of options would also help to determine the ease of implementation. We encourage Ofgem to take a holistic and consistent approach to developing the enduring arrangements.

If you do wish to discuss any of the points in this paper in more detail please do not hesitate to contact me on 0191 2212072.

Yours sincerely

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Head of Regulatory Affairs